

Top Ten Minister Tax Mistakes



1. Treating Ministers as Independent Contractors

- Dual Status
 - Employees for Federal Income Tax
 - Self-Employed for Social Security
- Exempt from Income Tax and Social Security Tax Withholdings
 - May voluntarily have FIT withheld, but never FICA



1. Treating Ministers as Independent Contractors

- Form W-2
 - Ministers & Other Church Employees
- Form 1099-MISC
 - Visiting Evangelists & Musicians
 - Other “short-term” workers



2. Improperly Calculating Housing Allowance

- The Lesser of...
 - The Fair Rental Value of the home plus utilities & maintenance
 - The actual cost of rent/mortgage, utilities & maintenance
 - The amount designated by the church

2. Improperly Calculating Housing Allowance

- Housing Allowances Reminders:
 - Designated prospectively, never retroactively
 - Exempt from FIT
 - Included in calculating SE tax

3. Failing to Apply the “Deason” Rule

- “Deason” Rule – Unreimbursed ministerial expenses must be reduced by the percentage of salary represented by the tax exempt housing allowance
 - Deason v. Commissioner (1964)

3. Failing to Apply the “Deason” Rule

- “Deason” Rule Example
 - Gross Salary = \$40,000
 - Taxable Salary = \$30,000
 - Housing Allowance = \$10,000
 - Must reduce business expenses by 25%

4. Failing to Reduce SE Income by Unreimbursed Expenses

- The I.R.C. allows Schedule SE income to be reduced by the amount of unreimbursed ministerial expenses
 - Deason rule does not apply to Schedule SE calculations

4. Failing to Reduce SE Income by Unreimbursed Expenses

- Example
 - Taxable Salary = \$30,000
 - Housing Allowance = \$10,000
 - Expenses = \$3,000
- Taxable SE Income = \$37,000

5. Improperly Taking an Office-in-Home Deduction

- No OIH deduction is allowed if receiving a tax exempt housing allowance.
- No OIH deduction allowed when the church supplies an office
 - OIH must be for the employers convenience



6. Improperly Taking Undistributed Expense Account Payments

- Paying out undistributed expense account money automatically makes the expense account a non-accountable plan
- Non-accountable plan payments are fully taxable



7. Not Including Social Security “Equivalence” Offsets as Income

- Many churches provide Social Security offset payments to compensate ministers for having to pay in the “employers” portion of FICA through their SE tax
 - These offsets are fully taxable



8. Inadequately Calculating Quarterly Tax Payments

- The I.R.C. requires self-employed persons to pay their SE tax in equal quarterly installments.
- Underpayment may result in a penalty

“Safe Haven” Rule



9. Failing to Adequately Substantiate Business Expenses

- Adequate documentation includes
 - Date/Time
 - Location
 - Amount
 - Business Contact
 - Business Purpose
 - Receipts



10. Not Reporting Personal Use of Church Owned Vehicle/Cell Phone

- Some churches provide their minister with a church-owned car and/or cell phone
- Personal use of church-owned car and cell phones is taxable income
- Substantial excise tax may apply



Questions?



Major Tax Law Changes



2006 Pension Protection Act

- Tax-free transfer of up to \$100K to a qualifying charity
 - 70½ or older for 2006 & 2007
- Increased pension plan contribution limits
 - IRA rollover to qualified pension plans



2006 Pension Protection Act

- Charitable Contributions
 - All monetary contributions require written receipt or bank record
 - Clothes & Household goods must be in good or better condition



2006 Tax Relief & Health Care Act

- \$250 Educator Deduction
- \$4,000 Tuition & Fees Deduction
- State & Local Sales Tax Deduction
- Residential Energy Credit
 - Windows, Doors, Solar Power



2006 Tax Relief & Health Care Act

- Mortgage Insurance Premiums deductible in 2007 as Mort. Interest
- IRA Rollover to HSA (post-2006)
- 2007 HSA annual limit not tied to HDHP annual deductible

Telephone Excise Tax Refund

- One-time refundable credit for federal excise tax on long distance telephone and “bundled” services billed after Feb. 28, 2003 until Aug. 31, 2006
 - May claim actual cost or “safe haven”



Louisiana Citizens FAIR Tax Credit

- Refundable LA tax credit for assessments paid on homeowners' insurance policies to help fund the Louisiana Citizens Property Ins. Co.
 - Louisiana Citizen's FAIR Assessment
 - Louisiana Coastal Recovery



Questions?



